2001 Annual Report

COGECO

Contents

Profile

COGECO **is a diversified communications company with shares listed on The Toronto Stock Exchange.**

The Company strives to meet the communication needs of consumers and advertisers through cable distribution and broadcasting.

COGEGO provides 986,704 service units to the 1,358,880 households passed in the territories it serves. It is the second largest cable system operator in both Ontario and Quebec and the fourth largest in Canada. Its cable subsidiary, Cogeco Cable Inc., is also a public company with shares listed on The Toronto Stock Exchange. Cogeco Cable is evolving to become one of Canada's major telecommunications companies, by building on its cable distribution base with the offering of analog, digital and high speed Internet services.

COGECO operates six television stations and two radio stations which broadcast on Quebec's major markets through its subsidiary Cogeco Radio-Television Inc. COGECO also owns a meaningful position in the TQS network.

COGECO intends to remain at the forefront of the communications sector through sound investment in facilities, the offering of leading edge communications services and the pursuit of growing profitability.

Revenue and Operating Income before Depreciation and Amortization
(in millions of dollars)

Financial Highlights

Years ended August 31,
(in thousands of dollars, except rates of return and ratios and per share data)

	2001	2000	Variance
Operations			
Revenue	$ 478,814	$ 408,438	17%
Operating income before depreciation and amortization	174,346	150,845	16
Net income excluding unusual items	16,634	8,369	99
Net income	69,357	8,526	713
Cash flow from recurring operations	115,363	101,330	14
Financial Condition			
Total assets	$1,840,689	$1,462,743	26%
Total indebtedness	823,121	774,439	6
Shareholders' equity	305,822	243,451	26
Rates of Return and Ratios			
Operating margin before depreciation and amortization	36.4%	36.9%	
Return on average shareholders' equity	25.3	3.5	
Total indebtedness on operating income before depreciation and amortization	4.7	5.1	
Interest coverage	3.2	2.9	
Per Share			
Net income excluding unusual items	$ 1.03	$ 0.52	98%
Net income	4.28	0.53	708
Cash flow from recurring operations	7.12	6.29	13
Shareholders' equity	18.84	15.05	25
Weighted average number of outstanding shares (in thousands)	16,204	16,120	1

Report
to Shareholders

Cogeco Radio-Television
has done remarkably well
with solid advertising sales increases
and improved profitability.

Maurice Myrand
Chairman of the Board

Cogeco Cable
has improved its performance
with the integration of new cable system acquisitions,
the continued growth of its high-speed Internet
and digital services, as well as the implementation
of numerous cost reduction measures.

Louis Audet
President and Chief Executive Officer

Continued audience growth in **radio and television** coupled with good operating expenditure controls are at the root of this success.

Fiscal year 2000-2001 has seen COGECO improve its performance on many fronts. Subsidiary Cogeco Cable has improved its performance with the integration of new cable system acquisitions, the continued growth of its high-speed Internet and digital services, as well as the implementation of numerous cost reduction measures. Subsidiary Cogeco Radio-Television has also done remarkably well with solid advertising sales increases and improved profitability.

Net income excluding unusual items and a change in accounting policy related to income taxes was $7 million or $0.41 per share, compared to $8 million or $0.52 per share last year. The issuance of 6.3 million subordinate voting shares of Cogeco Cable to lower debt levels and acquire cable systems has reduced COGECO's ownership stake to 39%. Revenue increased by 17% to reach $479 million, a reflection of increased high-speed Internet and digital sales along with the integration of newly acquired systems in the cable sector, as well as a 8% increase in advertising revenues reaching $40 million in the media sector. Operating income before depreciation and amortization rebounded nicely to reach $174 million, a healthy 16% increase compared to last year.

Cogeco Radio-Television had another very good year with a 28% increase to $12 million in operating income before depreciation and amortization. Continued audience growth in radio and television coupled with good operating expenditure controls are at the root of this success.

Station CJMF-FM 93 in Quebec City further strengthened its number one position in that market with its relevant commentary format. Station 105.7 Rythme FM in Montreal achieved a breakthrough, as evidenced in the Spring of 2001 when its audience rating increased by 50 %, confirming its number 2 ranking with the Adult 25-54 target group. Television stations CKTV/CFRS-TV Chicoutimi/Jonquière, CKTM/CFKM-TV Trois-Rivières and CKSH/CFKS-TV Sherbrooke affiliated to the SRC and TQS networks also saw their performance improve.

Our partnership with Stornoway Productions has garnered positive results. On November 24, 2000, the CRTC issued new digital service licences to Stornoway Communications Limited Partnership in which COGECO holds a 49% interest. Stornoway was successful with one Category one service, I Channel, and three Category two services. The partnership has started broadcasting I Channel and BPM on September 7, 2001. Stornoway also recently acquired control of the Movieola Short Film Channel that was also launched on the same date. That transaction has received CRTC approval.

On September 18, 2001, COGECO Inc. announced that it was acquiring the 86% Quebecor holding in the TQS television network and stations, in partnership with Bell Globemedia Inc., through a joint acquisition company, for a cash consideration of $74 million.

COGECO already held an equity position of approximately 13% in TQS. The six COGECO affiliated television stations will be rolled into the joint acquisition company, at a fixed value of $95 million, thereby providing COGECO with a 60% ownership position, while Bell Globemedia, with a $74 million cash investment, holds a 40% equity position. Bringing the TQS network and the affiliates together further strengthens the operating income before depreciation and amortization of TQS. An application for approval of the transaction was filed with the CRTC on September 21, 2001.

On the **cable** side,
revenue increased by 18%
to reach $439 million.

On the cable side, subsidiary Cogeco Cable generated net income excluding unusual items and a change in accounting policy related to income taxes, of $3 million. Revenue increased by 18% to reach $439 million.

Operating income before depreciation and amortization increased by a satisfying 15% to reach $161 million. Approximately one half of this increase has come about through the acquisition of cable systems serving about 104,000 basic service customers, while the other half resulted from increased sales of Internet and digital services as well as rate increases.

Cogeco Cable's investment last year in its digital platform, now available to close to 100% of our Ontario customers and 72% of our Quebec customers (with plans to further close that gap in the coming year), continues to inflate the depreciation line, but will have less of an impact on net income in years to come for two reasons.

The first is that the platform is now in place to make the most of the digital launch in our Ontario systems, starting September 14, 2001, of some 50 new digital only specialty services. Already, pay-per-view sales have risen by 68% compared to last year as a result of this investment. Digital packages are now the choice option of a growing number of some 795,000 basic service customers throughout Cogeco Cable. The second is that, as of mid-August, Cogeco Cable has extended an attractive purchase offer to customers with a view to increasing loyalty, reducing capital expenditures and thus improving our balance sheet. Motorola DCT 2000 digital terminals are now available to customers for as little as $99. This creates a very favorable environment in which to launch new products such as Video-On-Demand and Interactive Television.

Operating income before depreciation and amortization has improved in a meaningful way, especially owing to the cable system acquisitions and the completion, in the Fall of 2000, of the systematic review of all business processes. Changes have been brought to our corporate structure and many of our service delivery processes. Furthermore, we have adopted a more centralized approach for the procurement of goods, services and programming.

The **digital platform** is now available
to close to 100% of our Ontario customers and
72% of our Quebec customers.

During the past year, we completed the integration of recently acquired cable systems serving some 104,000 basic service cable customers in the areas of Nicolet, Gaspé and Mont-Tremblant in Quebec, as well as Belleville, Brockville, Napanee, Huntsville, Muskoka and Lindsay in Ontario, all of which are a natural fit with the Windsor to Gaspé corridor of operations that we have built up over the years. We have immediately begun investing to improve these systems and bring high-speed Internet and digital services to these customers. Today, taking into account the newly acquired systems, 76% of households in Cogeco Cable systems have two-way capability, which enables the Company to carry video, data and voice services of all types.

During the year, Cogeco Cable spent $166 million in capital expenditures, which has been higher, for a third year in a row, than internally generated cash flow of $105 million. We now believe that the advanced state of our cable systems, coupled with a solid base of Internet and digital customers, and attractive Internet modem and digital terminal sales programs available to

Cogeco Cable's **Digital Service** base has also grown to an impressive 105,292 digital terminals in use.

customers, make it possible for Cogeco Cable to resume its prior policy of keeping capital expenditures in line with internally generated cash flow beginning in 2001-2002. In fact, we believe that cash flow from recurring operations will be greater than capital expenditures in a few years, excluding what may be required to offer a telephony service.

Over the past two years, Cogeco Cable has invested in the development of an IP telephony service for its customers. Our conclusion is that while IP may be the ultimate way to go in the future, the current solution would likely take a few more years and require efforts that would be unreasonable to expect of Cogeco Cable, given the slow pace at which the rest of North American cable companies are proceeding with this technology to offer telephony services. Therefore, we have elected to write off our investment in this technology for an amount of $29 million. Cogeco Cable is now exploring other alternatives in its quest to find an entry strategy into local telephony that offers a reasonable profit potential within an acceptable period of time.

During the year, our high-speed Internet customer base grew from 70,716 on August 31, 2000, to 107,938 as of August 31, 2001.

Independent studies have shown that in most Cogeco Cable systems, the Rapidus™ service, our house brand in Quebec, and the @Home™ service in Ontario outperform the telco originated residential DSL services in speed by a factor of close to 2 to 1 on a consistent basis, in addition to being highly reliable and secure. The growth curve for these services remains strong. During the year, Excite@Home™ experienced some financial difficulties and, as a result, Cogeco Cable has decided to accelerate the capital investments and process redesign required to achieve full independence from Excite@Home™.

Cogeco Cable's Digital Service base has also grown to an impressive 105,292 digital terminals in use as of August 31, 2001, up from 79,063 last year. In an effort to increase the return on this service, digital terminal rental rates were increased from $9.95 per month to $12.95 per month, effective March 15, 2001. This has had the effect of temporarily slowing the growth curve. However, the introduction of the $99 purchase option, as of mid-August, has stimulated demand for that service.

The exciting 50 or so new digital channels launched in early September 2001 have provided new reasons for customers to buy digital terminals, further supporting other market opportunities in the form of a larger digital base. A number of theme-based and price-based packages are available to suit every taste and budget, ranging from $2.49 per month per channel *à la carte* to $37.99 for the complete package, mostly in Ontario.

Sometime in the late Fall of 2001, Cogeco Cable will be gradually testing and subsequently rolling out the Video-On-Demand service for which it received a licence from the CRTC on November 24, 2000. We believe that this product, which is supported by our existing digital terminal platform, will be extremely popular with customers.

Customers will select **in real time** the movie of their choice from a bank of about 600 titles.

Ultimately, customers will select in real time the movie of their choice from a bank of about 600 titles, through a simple click on their remote control, while enjoying the full functionality of a household video reader. Within the next few years, the VOD service should be available to the vast majority of our digital customers. The speed with which the North American cable industry manages to negotiate distribution rights with the major studios will determine when a full-fledged service will become available to our customers. Cogeco Cable has entered into an agreement with Concurrent Computer Corporation, who will be providing the video server infrastructure for the service.

Cogeco Cable has also concluded an agreement with WorldGate Communications for the offering of interactive television services to its digital customers.

Initially, the service will be a Web-based offering available on the television set. In time, as more interactive TV programming and commercial messages come to market, this product category should thrive. Trials will be conducted starting in the late Fall of 2001 and we intend to deploy this service gradually over the next few years.

During fiscal 2000-2001, the Quebec Division lost 5.2% of its basic service customers, while the Ontario Division lost 3.4% of its base. While this is not a desirable outcome, it is not unexpected and has been more than compensated for by sales of bundled services, in particular high-speed Internet and digital services. These losses are attributable to increased direct-to-home satellite competitive pressures. Both satellite service providers are incurring heavy operating losses before depreciation and amortization to build market share. There is much speculation on how much longer they will want to pursue this strategy. Their efforts have somewhat been facilitated by some of the rate increase adjustments we have made to align our prices to market levels but this, in our opinion, is only a transitory effect.

Our new redesigned Web site www.cogeco.com has been made available to customers since June 2001. This site is ideal to inform customers about our services, the equipment available to access these services and the best value cable bundles to suit customers' tastes.

By the end of fiscal year 2001-2002, this site should be fully interactive, thus enabling customers to book their own orders and installation windows, without any human intervention whatsoever, though customer support services will always be readily available. As well, our Mobile Data Terminal System was finally put into service towards the end of February 2001. This system allows Cogeco Cable to dispatch installation and repair work orders directly to technicians' trucks in a paperfree mode. This important cost savings tool also enables the Corporation to shorten installation windows for customers and to unlock services to customers on the spot.

In its continuous quest for future growth opportunities, Cogeco Cable recently entered into a joint venture marketing agreement with equal interest partner SNC-Lavalin, called Cogeco/SNC-Lavalin Broadband International. The purpose of this joint venture is to seek out and select opportunities with a view to eventually building and operating broadband infrastructures to offer combined video, telephone and high-speed Internet services on wireline or wireless networks. Targeted publics are individuals, companies and government organizations in countries other than Canada, the United States and the European Union. The partners are planning moderate investments in countries where broadband is still in its infancy, where the legal framework is well established and where the likelihood of short-to medium-term profitability looks promising. The founding partners generally wish to associate with local partners. At this early juncture, no investment is presently under consideration.

While cable values have fluctuated during the year, largely owing to the fate of stocks from the technology sector and the general downturn in the stock market, as well as by a slowing of mergers and acquisitions activities, including the fateful events of September 11, 2001, the future growth prospects of communications companies in general, and COGECO in particular, continue to be driven by strong positive fundamentals based on real growth of cash flow from recurring operations and ever-present market opportunities.

Steadfast in its vision, Cogeco Cable is now in a position to capitalize on a unique and wonderful opportunity. Through the bundling of services and building on its human and technical infrastructure, Cogeco Cable can now offer on a single wire with one invoice, up to six different services: traditional video, digital service, including video-on-demand and interactive television, high-speed Internet and, in the not too distant future, telephony. Revenue per customer could conceivably increase fourfold!

This multi-product offering also explains, to a great extent, why revenue and cash flow from recurring operations of Cogeco Cable continue to grow as they do, and are expected to continue to do so. This unique bundling capability, built on a ubiquitous high performance network reaching all households and small businesses in the areas served by the Company, is what will ultimately allow Cogeco Cable to grow and prosper despite competition by satellite and DSL service purveyors. The breadth of services, including unique to cable differentiating services such as VOD and interactive TV combined in attractively priced options, will ensure the continued growth of Cogeco Cable. As more and more sectors of the information based economy cross into the virtual world, cable's high-speed fully interactive capabilities will ensure it maintains its unique, growing and profitable market position.

The National Broadband Task Force recently recommended that the Federal Government consider making funds available to make broadband available to all Canadians by 2004. The Task Force has also recommended a review of foreign ownership restrictions in distribution undertakings. These recommendations, if endorsed by the Federal Government, could create additional market and value creation opportunities for Cogeco Cable.

COGECO is also well positioned to take advantage of content based market opportunities, thanks to its recent investments in specialty and general interest television undertakings.

We wish to take this opportunity to express our gratitude to all members of the Board of Directors of COGECO Inc. for their invaluable counsel in guiding the Company in an increasingly competitive and complex environment.

Our management and staff must also be commended for their exemplary efforts in helping COGECO carry out its agenda of growth and value creation for shareholders and quality services for our valued customers.

Maurice Myrand
Chairman of the Board

Louis Audet
President and Chief Executive Officer

October 19, 2001

Vision

Management's Discussion and Analysis

The Company's revenue totaled **$478.8 million**, an increase of **$70.4 million** or 17.2%

In the following pages, you will find a more in-depth analysis of the Company's operations and current financial position, as well as a perspective on the future. However, to better understand this analysis, it is important that it be read in conjunction with the Company's consolidated financial statements, which start on page 23.

Discussion on the achievement of our key financial objectives

Certain statements throughout these pages may constitute forward-looking statements that involve risks and uncertainties. Future results will be affected by a number of factors pertaining to technology, markets, competition and regulation including those described in the uncertainties and main risk factors section of this management's discussion and analysis. Therefore, actual results may be materially different from those expressed or implied by such forward-looking statements.

This section gives an overview of each of COGECO's two operational sectors. The first of these is the cable sector, which refers to COGECO's 39.4% owned subsidiary, Cogeco Cable Inc. This is followed by the media sector, represented by a wholly-owned subsidiary known as Cogeco Radio-Television Inc. (CRTI) and portfolio investments in the broadcasting industry. COGECO currently owns a 12.9% equity interest in the capital of TQS Inc., the owner of the Télévision Quatre Saisons (TQS) network. On September 18, 2001, COGECO and Bell Globemedia Inc. announced the conclusion of an agreement to acquire the 86% Quebecor holding in the TQS television network and stations through a joint acquisition company owned 60% by COGECO and 40% by Bell Globemedia. The joint acquisition company will also own and operate COGECO's six existing television stations. This transaction is subject to the usual conditions and to approval by the Canadian Radio-Television and Telecommunications Commission (CRTC). It should be noted that the media sector activities are focused in radio and television broadcasting.

Cable Sector

In 2000-2001, the cable sector lost 3.9% of its customer base, disregarding acquisitions. However, the loss of basic service customers had been anticipated by the Company, in significant measure due to the price increases implemented in the third quarter to align Cogeco Cable's prices to market levels. This loss was more than offset by continued customer growth for high-speed Internet access and digital services as well as by rate increases. Cogeco Cable achieved revenue growth of 18.2%, of which 8.3% was attributable to organic growth. As of August 31, 2001, Cogeco Cable served 107,938 high-speed Internet customers, surpassing its target of 105,000 customers. Given a monthly price increase of $3 for the rental of digital terminals, Cogeco Cable just narrowly missed its target of installing 110,000 digital terminals by approximately 5,000.

Cogeco Cable's operating margin before depreciation and amortization decreased in comparison to fiscal 2000. However, Cogeco Cable's focus on improving its operating margin resulted in that ratio increasing from 35.1% to 38.5%, between the second and fourth quarters of fiscal 2001. The increase in operating margin before depreciation and amortization is due to two factors: a cost reduction plan implemented at the end of the second quarter of fiscal 2001 and rate increases implemented at the beginning of the third quarter of fiscal 2001.

The cable sector continued its vast network modernization program with the result that 76% of households are currently served by a two-way broadband cable plant. To this end, it made investments in the new high-speed Internet access and digital technology niches, including the upgrading of recently acquired cable systems.

As expected, the $166.4 million capital expenditure program, $6.4 million more than originally planned, was financed mostly through internally generated cash flow from recurring operations amounting to $105.4 million, with the balance being financed through existing credit facilities.

Media Sector

In 2000-2001, media sector revenue increased by 7.6%. In addition, operating margin before depreciation and amortization rose from 25.9% in 1999-2000 to 30.8% in 2000-2001.

As a result of improved radio and television advertising sales and significant market share improvement of COGECO's two radio stations, increases in both revenue and operating margin before depreciation and amortization exceeded expectations.

Operating results

The Company's revenue totaled $478.8 million, an increase of $70.4 million or 17.2%. This growth was due to an increase in revenue of $67.5 million (18.2%) in the cable sector, and $2.8 million (7.6%) in the media sector.

The increase in revenue from the cable sector is attributable to the acquisition of cable systems contributing an additional $36.5 million or 9.9% in fiscal 2001, while internal revenue growth amounted to $31.0 million or 8.3%. Internal growth owes much to improved penetration of high-speed Internet access and digital services as well as rate increases. In the media sector, the revenue increase is mainly explained by improved radio and television advertising sales and significant market share improvement of COGECO's two radio stations.

Operating costs amounted to $304.5 million in 2000-2001, compared to $257.6 million in 1999-2000. With respect to operating income before depreciation and amortization, it went from $150.8 million in 1999-2000, to $174.3 million in 2000-2001, an increase of 15.6%.

Depreciation and amortization rose by 40.9%, from $67.4 million to $95.0 million in 2000-2001. As for financial expense, it rose by 6.9%, from $51.7 million to $55.2 million in 2000-2001. Three factors are responsible for the growth in depreciation and amortization expense: firstly, the cable network modernization program; secondly, the capital expenditures related to high-speed Internet access and digital services, and lastly, recent cable system acquisitions. It should be noted that cable modems and digital terminals are depreciated over a period of 7 years, compared to 15 years for investments related to cable network improvements. Capital expenditures totaled $167.8 million in 2000-2001, compared to $178.4 million in 1999-2000. The increase in financial expense was driven by capital expenditures greater than internally generated cash flow from recurring operations, and the acquisition of cable systems, which were partly financed from existing credit facilities.

In 2000-2001, unusual items amounted to a net gain of $30.3 million mainly attributable to the subsidiary, Cogeco Cable. A gain on dilution of $61.1 million, following the issuance of 6.3 million Cogeco Cable subordinate voting shares, was realized. Futhermore, the cable sector elected to write-off its investment in its IP telephony project and other assets for a total amount of $ 30.5 million pre-tax. The IP telephony write-off of $29.3 million was taken as a result of the unforeseen level of effort required to deploy the IP solution under evaluation. In 1999-2000, an unusual gain amounting to $505,000 was realized from the sale of cable systems situated in the Ottawa Valley region in exchange for cable systems located on the Niagara peninsula and the Windsor region.

Market Capitalization
and Shareholders' Equity
(in millions of dollars)

Market Capitalization
Number of outstanding shares at year end multiplied by the price at close (The Toronto Stock Exchange)

Shareholders' Equity

Excluding the effect of a change in accounting policy effective September 1, 2000, income taxes for fiscal 2001 amounted to $5.9 million. Effective September 1, 2000, the Company implemented new CICA (Canadian Institute of Chartered Accountants) recommendations related to income taxes. Under the new accounting standard, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The change in accounting policy has resulted in a decrease in future income taxes of $24.3 million in fiscal 2001. In fiscal 2000, income taxes amounted to $17.5 million, net of a $16.3 million tax benefit relative to tax losses carried forward.

Excluding unusual items and a change in accounting policy for future income taxes, net income totaled $6.7 million in 2000-2001 compared to $8.4 million in 1999-2000. On a per share basis, this translates into an amount of $0.41 in 2000-2001 compared to $0.52 in 1999-2000. The weighted average number of outstanding shares remained relatively stable, increasing from 16.1 million in 1999-2000 to 16.2 million in 2000-2001. We note that in 2000-2001, net income amounted to $69.4 million, or $4.28 per share compared to $8.5 million or $0.53 per share in 1999-2000.

Financial and operational review by sector

Cable Sector

Growth of 9% in the Customer Base

With approximately 879,000 basic service customers as of August 31, 2001, Cogeco Cable remains the second largest cable operator in both Ontario and Quebec and the fourth largest in Canada.

71% of Cogeco Cable's basic service customers are located in Ontario and 29% in Quebec. In 2000-2001, Cogeco Cable completed the acquisition of cable systems serving some 104,000 basic service customers in the areas of Nicolet, Gaspé and Mont-Tremblant in Quebec, as well as Belleville, Brockville, Napanee, Huntsville, Muskoka and Lindsay in Ontario. This translates into an increase of 9% in Cogeco Cable's basic service customer base since the end of fiscal 2000.

Cable Sector

Years Ended August 31,
(in thousands of dollars, except for profitability ratios)[1]

	2001	2000	1999	1998	1997
Revenue	**$ 438,768**	$ 371,231	$ 325,367	$ 286,858	$ 237,275
Operating income before depreciation and amortization	**160,509**	140,051	138,796	126,697	103,120
Depreciation and amortization	**92,080**	64,594	49,900	42,050	33,757
Operating income	**68,429**	75,457	88,896	84,647	69,363
Capital expenditures	**166,369**	176,633	136,440	80,081	59,533
Net assets employed	**1,682,687**	1,298,823	1,004,772	951,649	816,928
Operating margin before depreciation and amortization	**36.6%**	37.7%	42.7%	44.2%	43.5%
Operating income before depreciation and amortization/ Average net assets employed	**10.8**	12.2	14.2	14.3	17.0
Operating margin	**15.6**	20.3	27.3	29.5	29.2
Operating income/ Average net assets employed	**4.6**	6.6	9.1	9.6	11.4

(1) To determine the sector's normalized contribution, unusual items are not included in the above table.

Operating Results

Revenue

Cogeco Cable's revenue totaled $438.8 million, an increase of $67.5 million or 18.2%.

Part of this growth, approximately $36.5 million, relates to the acquisition of Cableworks Communications on September 30, 1999, serving some 64,000 basic service customers, and the acquisition, during the first semester of fiscal 2001, of cable systems, serving some 104,000 basic service customers. Internal revenue growth amounted to approximately $31.0 million or 8.3%. This growth mainly results from improved penetration of high-speed Internet access and digital services as well as rate increases as discussed below. Average monthly revenue per basic service customer (excluding the high-speed Internet access service) went from $35.18 in 1999-2000 to $38.83 in 2000-2001, a rise of $3.65 or 10.4%, due to the following reasons:

- As at August 31, 2001, 187,926 customers had subscribed to product bundling, of which 38% included the digital service. Product bundling encourages customers to subscribe to more services at more attractive monthly rates than for subscription to individual services. The enhanced quality and programming choice provided by the digital service coupled with the attractive pricing of the bundled packages have resulted in the penetration rate of Pay TV increasing from 11.0% to 13.3% over the past fiscal year and in a significant increase in the pay-per-view buy rates. As a result of those increases, Pay TV and pay-per-view services contributed to approximately 14% of internal revenue growth.
- High-speed Internet revenue contributed to approximately 49% of internal revenue growth. The addition of more than 37,200 new customers for the high-speed Internet access service generated incremental revenue of approximately $15.3 million.
- Rate increases accounted for most of the balance of internal revenue growth. Rate increases for discretionary tiers were implemented in June 2000 and March 2001 in Ontario, and in September 2000 and July 2001 in Quebec. In June 2000, Cogeco Cable essentially created a standard rate for the discretionary tiers in Ontario. Harmonizing the rates had the effect of increasing the monthly rates by $0.25 to $5.00, depending on the cable system. In March 2001, monthly rate increases ranging from $2 to $3 per customer for discretionary tiers and most service bundles offered in Ontario were implemented. In Quebec, the monthly rate for the first discretionary tier was adjusted in September 2000 and July 2001, resulting in a weighted average increase totaling $0.71 per customer. Furthermore, the monthly digital terminal rental rate in Quebec increased by $3.00 last July. Rate increases for basic service were implemented in September 2000 and March 2001 in connection with the distribution of certain television services.

Operating Costs

Network fees, shown as a percentage of revenue, decreased in 2000-2001, the result of various rate increases implemented since the last fiscal year. Average monthly network fees per basic service customer (excluding the high-speed Internet access service) went from $11.37 in 1999-2000 to $12.01 in 2000-2001, a rise of $0.64 due to three factors: program supplier fee increases, the increased number of customers subscribing to product bundling, and the launch of new basic and tier channels since the last fiscal year. In Ontario, Cogeco Cable introduced up to five new specialty services in the fall of 1999. These services were included either in the basic service or in the discretionary tiers, depending on the cable system. In Quebec, the Company introduced four new French-language specialty services in January 2000.

Other operating costs, expressed as a percentage of revenue, rose in 2000-2001. The decrease in operating margins owes much to higher marketing costs. A more active advertising presence was needed in light of increased direct-to-home satellite competitive pressures.

Management fees to COGECO Inc. represented approximately 1.7% of revenue in 2000-2001 compared to 2.0% in 1999-2001. For fiscal 2002, management expects these fees to be indexed, based on the Consumer Price Index, and to represent a smaller proportion of revenue.

Operating Income before Depreciation and Amortization

Operating income before depreciation and amortization totaled $160.5 million, an increase of $20.5 million or 14.6%. The operating margin before depreciation and amortization declined from 37.7% to 36.6%. However, Cogeco Cable's focus on improving its operating margin resulted in the margin increasing from 35.1% to 38.5%, between the second and fourth quarters of fiscal 2001. Further to the completion in the fall of 2000 of the systematic review of all processes as part of an overall cost reduction plan with a view to improving both the efficiency and quality of its services, Cogeco Cable reduced its staffing, during the second and third quarters of fiscal 2001, by approximately 150 full-time employees. Furthermore, rate increases implemented in Ontario at the beginning of the third quarter of fiscal 2001 contributed to improved margins.

Operating costs

included the following:
(in millions of dollars)

	2000-2001	% of revenue	1999-2000	% of revenue
Network fees	$134.7	30.7%	$117.3	31.6%
Other operating costs	136.1	31.0	106.6	28.7
Management fees	7.5	1.7	7.3	2.0
Total	$278.3	63.4%	$231.2	62.3%

Media Sector

Years ended August 31,
(in thousands of dollars, except for profitability ratios)[1]

	2001	2000	1999	1998	1997
Revenue	**$40,046**	$37,207	$33,508	$29,274	$37,241
Operating income before depreciation and amortization	**12,319**	9,650	7,867	7,113	7,719
Depreciation and amortization	**2,516**	2,461	2,108	1,717	2,151
Operating income	**9,803**	7,189	5,759	5,396	5,568
Capital expenditures	**1,385**	1,720	1,720	2,804	1,901
Net assets employed	**35,970**	34,352	35,529	32,558	31,375
Operating margin before depreciation and amortization	**30.8%**	25.9%	23.5%	24.3%	20.7%
Operating income before depreciation and amortization/ Average net assets employed	**35.0**	27.6	23.1	22.2	18.1
Operating margin	**24.5**	19.3	17.2	18.4	15.0
Operating income/ Average net assets employed	**27.9**	20.6	16.9	16.9	13.0

(1) To determine the sector's normalized contribution, unusual items are not included in the above table.

Media Sector

CRTI operates six French-language television stations and two French-language radio stations.

Television stations CKTM-TV Trois-Rivières, CKSH-TV Sherbrooke and CKTV-TV Chicoutimi/Jonquière are affiliated with Société Radio-Canada, the Canadian Broadcasting Corporation's French network, while stations CFKM-TV Trois-Rivières, CFKS-TV Sherbrooke and CFRS-TV Chicoutimi/Jonquière are affiliated with the TQS network. The affiliation agreements for the three television stations affiliated with TQS will be up for renewal in 2003. The affiliation agreements for the three television stations affiliated with Radio-Canada are automatically extended from year to year unless terminated by either party by two years prior written notice, provided however that the required prior notice is only one year from the date that CRTI or an affiliated entity acquires control of TVA or TQS. Radio station 105.7 Rythme FM covers the Greater Montreal area, while CJMF-FM 93.3 covers the Quebec City region.

Financial Results

Media sector revenue totaled $40.0 million, an increase of $2.8 million, or 7.6%.

This increase in revenue is attributable to improved radio and television advertising sales, the good positioning of the radio stations and the increased viewership of the TQS network. COGECO's two radio stations significantly improved their market share in their respective target markets. The first place ranking of CJMF-FM in Quebec City and the second place ranking of 105.7 Rythme FM in Montreal in the 25-54 age group have been confirmed by the spring BBM audience ratings measurements.

Operating costs rose by only 0.6%, moving from $27.6 million in 1999-2000 to $27.7 million in 2000-2001. Operating income before depreciation and amortization totaled $12.3 million, an increase of $2.7 million, or 27.7%. Moreover, the operating margin before depreciation and amortization increased by 4.9%, going from 25.9% in 1999-2000 to 30.8% in 2000-2001. Revenue increases and stricter controls over operating costs account for the improvement in the media results. Overall, both radio and television contributed to the increase in this margin.

Cash flow

Cash flow generated from recurring operations totaled $115.4 million, an increase of $14.0 million or 13.8%. On a per share basis, cash flow went from $6.29 in 1999-2000 to $7.12 in 2000-2001.

Cable system acquisitions

In 2000-2001, the cable sector completed the acquisition of cable systems serving approximately 73,700 basic service customers located mainly in the Belleville, Brockville, Napanee, Huntsville, Muskoka and Lindsay areas in Ontario, and cable systems serving approximately 30,100 basic service customers located mainly in the Nicolet, Gaspé and Mont-Tremblant areas in Quebec. Cogeco Cable also acquired some inter-city optical fibers interconnecting the systems in the Huntsville region. The total purchase price for cable system acquisitions completed during 2000-2001 amounted to $226.1 million, subject to certain final adjustments, and was financed by cash payments totaling $80.9 million and the issue of approximately 3.8 million subordinate voting shares of Cogeco Cable. The acquisitions completed during 2000-2001 added approximately 104,000 basic service customers to Cogeco Cable's existing customer base.

In 1999-2000, the cable sector completed the acquisition of Cableworks Communications, serving approximately 64,000 basic service customers. In April 1999, Cogeco Cable paid a $5.3 million cash deposit and made, during 1999-2000, cash payments totaling $155.4 million, financed from its existing bank credit facility.

Acquisition of the TQS television network in partnership with Bell Globemedia

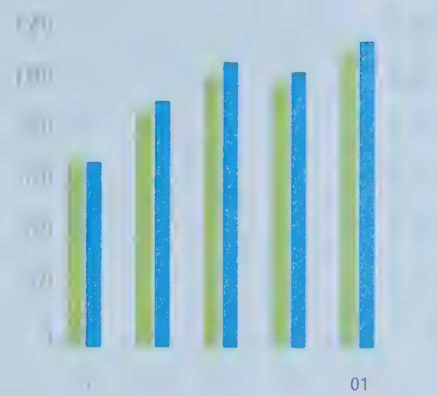
Last September 18, COGECO and Bell Globemedia announced the conclusion of an agreement whereby they will jointly acquire the 86% Quebecor holding in the TQS television network. COGECO and Bell Globemedia will establish a joint venture that will regroup the TQS television network and its owned and operated stations in Montreal and Quebec City as well as its Rimouski repeater station with the six television stations of CRTI located in Sherbrooke, Trois-Rivières and Chicoutimi/Jonquière. The respective contributions by COGECO and Bell Globemedia to the joint venture are as follows: COGECO will transfer to the joint venture the six stations of CRTI as well as its 12.9% interest in TQS for a total consideration valued at more than $104 million; Bell Globemedia will be contributing close to $74 million in cash to complete the transaction. COGECO will hold a 60% ownership in the joint venture, whereas Bell Globemedia will hold 40%. This transaction is subject to the usual conditions and to approval by the CRTC. The application for transfer of TQS to the joint venture was filed with the CRTC on September 21, 2001.

Capital expenditures

The annual capital expenditure program decreased from $178.4 million in 1999-2000 to $167.8 million in 2000-2001. The decrease is mainly due to lower capital expenditures for digital technology. For 2001-2002, the Company intends to invest between $127 and $132 million in its capital expenditure program, with between $125 and $130 million being directed toward the cable television sector.

Given the planned reduction in capital expenditures for 2001-2002, management believes that cash flow generated by operations should be sufficient to finance these investments.

Cash Flow from Recurring Operations
(in millions of dollars) (in dollars)



Cash Flow from Recurring Operations (in millions of dollars)

Cash Flow from Recurring Operations per Share (in dollars)

Leverage and Interest Coverage Ratio
(ratios)

Total Indebtedness on Operating Income before Depreciation and Amortization

Interest Coverage

Subordinate Voting Share Price and Ratios

Years ended August 31,
(in dollars, except ratios)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	**2001**
Subordinate voting share price at close	$ 5.75	$ 9.38	$ 9.38	$ 6.63	$ 6.70	$ 9.60	$13.65	$22.25	$37.95	**$22.95**
Per share										
Cash flow from recurring operations	2.21	2.36	2.14	2.34	2.39	4.18	5.61	6.45	6.29	**7.12**
Shareholders' equity	6.24	9.20	9.58	9.75	9.64	10.74	11.77	14.80	15.05	**18.84**
Ratios										
Price/Cash flow from recurring operations	2.6	4.0	4.4	2.8	2.8	2.3	2.4	3.4	6.0	**3.2**
Price/Shareholders' equity	0.9	1.0	1.0	0.7	0.7	0.9	1.2	1.5	2.5	**1.2**

Financing

On September 12, 2000, the cable sector, through its subsidiary Cogeco Cable, completed the issuance of 2.5 million subordinate voting shares at a price of $40.00 per share. The net proceeds from this offering, taking into consideration issuance costs net of related income taxes, amounted to $97.1 million and served to reimburse part of Cogeco Cable's bank indebtedness. Furthermore, approximately 3.8 million additional subordinate voting shares of Cogeco Cable were issued at an average price of $38.38 per share in partial consideration of cable system acquisitions completed during 2000-2001.

In 2000-2001, the Company paid a dividend of $0.21 per share, the same amount as in 1999-2000. This amount is equivalent to a quarterly dividend of $0.0525, payable to holders of subordinate voting shares and to holders of multiple voting shares.

On October 1, 2001, the Company announced its intention to proceed with an issuer bid in the normal course of business, for the buy-back of a maximum of 250,000 subordinate voting shares, representing less than 1.8% of the issued and outstanding shares in this class. In 2000-2001, the Company has not purchased any subordinate voting shares.

Capital structure

As at August 31, 2001, shareholders' equity amounted to $305.8 million, compared to $243.5 million a year ago. As at August 31, 2001, the Company's total indebtedness, net of cash and cash equivalents, was $821.0 million, compared to $771.4 million at the same date last year. The increase in indebtedness is all attributable to the cable sector and is mainly explained by the following: capital expenditures that were greater than the internally generated cash flow from recurring operations, as well as cable system acquisitions, which were partly financed through existing credit facilities. As at August 31, 2001, the weighted average interest rate on the fixed rate portion was 7.2%, the same rate at the same date last year. The following table summarizes indebtedness related financial ratios over the last two fiscal years.

Capital structure

August 31	2000	2001
Fixed rate debt (1)	64%	59%
Average term: long-term debt	6.2 years	4.9 years
Net indebtedness/Shareholders' equity	3.2	2.7
Net indebtedness/Operating income before depreciation and amortization (2)	5.1	4.7
Operating income before depreciation and amortization/Financial expense (2)	2.6	3.2

(1) The interest rate is fixed through financial instruments and long-term loans.

(2) Operating income before depreciation and amortization is a decisive indicator of the Company's capacity to finance its recurring operations on the one hand, and service its debt on the other. Please note that the ratios related to operating income before depreciation and amortization are calculated on the basis of annualized results from the fourth quarter.

Management of Cogeco Cable intends to maintain a conservative capital structure for this subsidiary, so that it safeguards its "investment grade" credit rating. It should be noted that this rating allows quick access to the public debt market at favorable interest rates to finance internal and external growth opportunities.

The Company is on schedule with financial expense payments and principal repayments on its borrowing and satisfies the various conditions stipulated in its financing agreements.

The Company has a $45.0 million term facility and a $5.0 million operating line of credit extended by a group of financial institutions. These bank facilities are used mainly to answer the financial needs of the media sector. The cable sector has its own $620.0 million term facility and a $25.0 million operating line of credit extended by a group of financial institutions. As at August 31, 2001, the Company had used bank credit of $15.0 million and of $518.0 million in the cable sector. The credit facilities in the cable sector are not guaranteed by the Company.

Trading Statistics

Years ended August 31,

Trading of Subordinate Voting Shares (in dollars)

Trading Volume of Subordinate Voting Shares (The Toronto Stock Exchange) (in thousands of shares)

Price/Cash Flow from Recurring Operations and Price/Shareholders' Equity

Price/Cash Flow from Recurring Operations

Price/Shareholders' Equity

Forward-looking financial expectations

The forward-looking statements below involve risks and uncertainties. Future results will be affected by a number of factors pertaining to technology, markets, competition and regulation including those described in the uncertainties and main risk factors section of this management's discussion and analysis. Therefore, actual results may be materially different from those expressed or implied by such forward-looking statements.

Cable Sector

The loss in basic cable customers should be more modest than in fiscal 2001 as Cogeco Cable plans to increase its digital footprint in Quebec from 72% of its basic service customer base to 95% by August 2002. However, the strength of competition in the regions served by Cogeco Cable could compromise the attainment of this objective. Based on current demand, Cogeco Cable forecasts it will add 40,000 high-speed Internet customers and 25,000 digital terminals by August 31, 2002.

In fiscal 2002, the cable sector expects to achieve revenue growth of 9%, of which 2% should be realized from acquisitions completed in fiscal 2001 and the balance from internal revenue growth. Internal revenue growth should stem mainly from the March and July 2001 rate increases for the discretionary tiers in Ontario and Quebec respectively, and the growth in penetration of high-speed Internet access and digital services. Three major initiatives should enable Cogeco Cable to maintain its 2001 fourth quarter operating margin before depreciation and amortization: the cost reduction plan implemented at the end of the second quarter of fiscal 2001; the rate increases implemented in March and June 2001; and the ongoing process improvements for our customer relationship management within our call centers and our technical operations units. Information technology initiatives such as the implementation of our Mobile Data Terminal System in the second quarter of fiscal 2001 and our transactional Web site in fiscal 2002 should enable Cogeco Cable to further improve its customer service and achieve greater cost savings.

In fiscal 2002, Cogeco Cable expects that depreciation of fixed assets and amortization of deferred charges will increase by 15% compared to 43% in fiscal 2001. This lower growth rate should be the result of lower capital expenditures in 2001-2002. In 2001-2002, management expects that the planned capital expenditure budget totaling between $125 and $130 million should be entirely financed by cash flow generated by operations. As a result of new CICA recommendations relating to intangible assets, effective September 1st, 2001, the customer base, an asset with an indefinite life, is no longer amortized but will be subject to an impairment test conducted at least annually.

Media Sector

In fiscal 2002, the media sector expects to realize an 8% organic growth in revenue and operating income before depreciation and amortization arising from the improved market share of the two radio stations and the TQS network. TQS, over the past few years, has continued to grow its market share of the French-speaking audience in Quebec thanks to a strategy that was implemented by a team of dynamic managers and talent who intend to stay on after COGECO and Bell Globemedia acquire control of TQS. This market share, according to Neilsen, is estimated at 16.1% of the 18 to 49 adult age group, TQS' main target group. The regrouping of COGECO's television stations in Sherbrooke, Trois-Rivières and Chicoutimi/Jonquière, which have been constantly profitable over the years, with the TQS network will provide for additional operational synergies. As a result of new CICA recommendations relating to intangible assets, effective September 1st, 2001, broadcasting licences, an asset with an indefinite life, are no longer amortized but will be subject to an impairment test conducted at least annually.

Uncertainties and main risk factors

Cable Sector

Competition in electronic communications services is now well entrenched in the Canadian marketplace. Wireline and wireless service providers compete on a wide selection of broadcasting distribution and telecommunications services, with the notable exception of local access telephone service, which remains largely dominated by the incumbent telephone companies. In management's view, the lack of viable competition in local telephone services allows incumbent telephone companies to support more easily their investments in competitive broadband services. The rivalry between satellite and cable operators for the distribution of information and entertainment services, and between telephone and cable operators for high-speed Internet services, can be expected to intensify in the short-to medium-term, as satellite operators strive to build a sufficient customer base to support their entry costs and past operating losses, and telephone and cable operators both strive to capture a leading market share in the booming high-speed Internet connection market segment.

In order to compete more effectively with satellite distribution and digital telephone lines, Cogeco Cable plans additional investment in cable system upgrades over the next three to four fiscal years, with a view to providing digital service in smaller systems, further extending two-way capability and providing added capacity where it is needed. While management is convinced that further investment in two-way digital cable plant is essential to the competitive position and future growth of Cogeco Cable, and the recent experience in the United States shows that digital cable can effectively recapture market share from its satellite competition, future returns on these capital investments are uncertain. The commercial roll-out of new generations of services on the common two-way digital cable platform, such as video-on-demand, interactive television and transactional services, is expected to contribute to such future returns. Commercial roll-out of these services will however depend not only on the readiness of local cable plant, but also on other contingencies such as appropriate content supply agreements, direct competition through the Internet, and consumer market conditions.

At Home Corporation ("@Home") is, through an agreement with a Canadian corporation, @Home Canada Inc., the supplier of Internet portal, e-mail, backbone connectivity and certain other ancillary services for most of Cogeco Cable's customers subscribing to the high-speed Internet service in Ontario. Cogeco Cable does not use any @Home services in Québec. The financial situation of @Home has recently deteriorated and raised concerns about @Home's capacity to support its existing Internet services in the future. As a result, Cogeco Cable is currently implementing a contingency plan with a view to provisioning and fully servicing as soon as possible all of its high-speed Internet service customers in Ontario without using any @Home services. This contingency plan involves additional expenditures for equipment, backbone connection and the handling of the transition to self-provisioning. Cogeco Cable is confident that self-provisioning will be more efficient and economical once the transition is completed.

The introduction of a host of new discretionary cable services, service bundling and "à la carte" choices greatly increases the requirements for, and reliance on, information systems for effective service procurement, billing, office support, reporting and control. Cogeco Cable's information system architecture and main billing systems, which are different for Ontario and Quebec, are currently under review, as Cogeco Cable's agreement with DST Innovis, Inc. for the Intelecable™ customer information and billing system used in Ontario is due to expire in May 2002. In conjunction with these new operational requirements and a possible customer information system replacement, the need for effective and timely recovery of information systems and data in the event of a major breakdown or catastrophic event, and their security, must also be addressed. Major decisions will be made in this regard during fiscal year 2001-2002. While the required changes and improvements to Cogeco Cable's information systems should proceed smoothly as planned and budgeted for, unforeseen implementation issues may still arise and cause delays, transitional difficulties, or added expense.

The construction and operation of cable systems requires cost-effective and timely access to municipal rights-of-way and existing public utility support structures such as poles and ducts. While municipal access and support structure agreements are routinely negotiated with a number of municipalities and public utilities, disputes may arise with respect to costs and other material terms. Such disputes have until now been resolved ultimately by the CRTC. In a recent judgement, the Federal Court of Appeal has ruled that the CRTC does not have jurisdiction under the *Telecommunications Act* to set terms for access by cable and other telecommunications carriers to the support structures of power utilities. The Canadian Cable Television Association has filed a motion for leave to appeal to the Supreme Court of Canada. However, Cogeco Cable has recently concluded, on satisfactory terms, multi-year agreements with its two main suppliers of support structures, Hydro One and Hydro-Québec. In an unrelated proceeding, the Federal Court of Appeal has granted certain municipalities leave to appeal a decision of the CRTC setting the principles and key terms for access by cable and telecommunications carriers to municipal rights of way. The outcome of this proceeding may have a material impact on the terms and conditions for certain municipal access agreements currently under negotiation.

Media Sector

The Company has entered into negotiations with the Canadian Broadcasting Corporation concerning the affiliation terms that could apply to three of the six television stations of CRTI in the event that CRTI would become the controlling shareholder of TQS Inc. These negotiations, which are not completed, could have an impact on revenue and operating expenses of these stations starting in 2003.

Consolidated Financial Statements

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Management's Responsibility

Related to Consolidated Financial Statements

The consolidated financial statements of COGECO Inc. and the financial information contained in this annual report are the responsibility of management. The financial statements include amounts determined by management based on estimates which in their opinion are reasonable and fair. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors. Operating and financial information used elsewhere in the annual report is consistent with that in the financial statements.

In fulfilling its responsibilities, management of COGECO Inc. and its subsidiaries have developed and continue to improve administrative and accounting systems in order to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that financial records are reliable for preparing the financial statements. The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, which reviews the annual consolidated financial statements of the Company and recommends their approval to the Board of Directors. The committee periodically meets with management and the external auditors to discuss the results of the external and internal examinations and matters having an impact on financial information.

The external auditors appointed by the shareholders, Samson Bélair/Deloitte & Touche, Chartered Accountants, are responsible for making an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and to issue an opinion on the statements. The external auditors have free access to the Audit Committee, with or without the presence of management. Their report follows.

Louis Audet
President and Chief Executive Officer

Pierre Gagné
Vice-President, Finance and Chief Financial Officer

Auditors' Report

To the Shareholders of COGECO Inc.

We have audited the consolidated balance sheets of COGECO Inc. as at August 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair
Deloitte & Touche.

Chartered accountants
Montreal, October 5, 2001

Consolidated Statements of Income

Years ended August 31
(in thousands of dollars, except per share data)

	2001	2000
Revenue	$ 478,814	$ 408,438
Operating costs	304,468	257,593
Operating income before depreciation and amortization	174,346	150,845
Depreciation and amortization (note 4)	95,006	67,440
Operating income before unusual items	79,340	83,405
Unusual items (note 5)	30,335	505
Operating income	109,675	83,910
Financial expense	55,225	51,656
Income before income taxes and the following items	54,450	32,254
Income taxes (note 6)	18,408	(17,510)
Non-controlling interest	(3,539)	(6,204)
Share in the results of an affiliated company	38	(14)
Net income	$ 69,357	$ 8,526
Net income per share (note 14)		
Basic	$ 4.28	$ 0.53
Fully diluted	4.20	0.52
Weighted average number of outstanding multiple voting shares and subordinate voting shares	16,203,825	16,119,838

Consolidated Statements of Retained Earnings

Years ended August 31
(in thousands of dollars)

	2001	2000
Balance at beginning	$ 129,753	$ 124,936
Changes in accounting policies (note 2)	(4,222)	–
Net income	69,357	8,526
Excess of price paid over the attributed value of shares redeemed	–	(324)
Dividends on multiple voting shares	(394)	(400)
Dividends on subordinate voting shares	(3,007)	(2,985)
Balance at end	$ 191,487	$ 129,753

Consolidated Balance Sheets

As at August 31
(in thousands of dollars)

	2001	2000
Assets		
Fixed assets (note 8)	$ 730,378	$ 626,145
Broadcasting licences and customer base (note 9)	1,019,132	729,708
Deferred charges	22,893	33,943
Investments (note 10)	10,032	9,613
Cash and cash equivalents	2,155	3,078
Accounts receivable	48,860	46,239
Prepaid expenses	7,239	14,017
	$1,840,689	$1,462,743

LIABILITIES AND SHAREHOLDERS' EQUITY

	2001	2000
Liabilities		
Long-term debt and term facilities (note 12)	$ 823,121	$ 774,439
Accounts payable and accrued liabilities	90,407	96,831
Deferred and prepaid income	17,413	12,402
Future income tax liabilities (note 6)	171,853	87,013
Non-controlling interest	432,073	248,607
	1,534,867	1,219,292
Shareholders' equity		
Capital stock (note 13)	114,335	113,698
Retained earnings	191,487	129,753
	305,822	243,451
	$1,840,689	$1,462,743

On behalf of the Board of Directors

Maurice Myrand
Director

Henri P. Labelle
Director

Consolidated Statements of Cash Flow

Years ended August 31
(in thousands of dollars, except per share data)

	2001	
Cash flow from operating activities		
Net income	$ 69,357	$ 8,526
Unusual items net of related income taxes and non-controlling interest	(52,723)	(157)
Net income from recurring operations	16,634	8,369
Items not affecting cash and cash equivalents		
Depreciation and amortization (note 4)	95,006	67,440
Amortization of long-term financing costs	1,721	1,712
Future income taxes (note 6)	(24,709)	16,069
Future income taxes related to unusual items	9,776	(169)
Non-controlling interest	3,539	6,204
Portion of unusual items attributable to non-controlling interest	12,612	(179)
Other	784	1,884
Cash flow from recurring operations	115,363	101,330
Change in non-cash working capital items (note 16)	(4,404)	(9,473)
	110,959	91,857
Cash flow from investing activities		
Acquisition of fixed assets (note 16)	(166,999)	(177,329)
Increase in deferred charges	(1,505)	(18,432)
Acquisition of investments	(2,113)	(3,369)
Proceeds on disposal of investments	1,262	66
Business acquisitions (note 3)	(80,855)	(155,358)
Proceeds on disposal of businesses	–	808
Other	(821)	170
	(251,031)	(353,444)
Cash flow from financing activities		
Increase in long-term debt	155,419	293,003
Repayment of long-term debt	(108,784)	(8,797)
Issue of subordinate voting shares	637	975
Purchase of subordinate voting shares for cancellation	–	(476)
Dividends on multiple voting shares	(394)	(400)
Dividends on subordinate voting shares	(3,007)	(2,985)
Issue of subordinate voting shares by a subsidiary to non-controlling interest, net of issue costs	96,129	787
Purchase of subordinate voting shares for cancellation by a subsidiary	(220)	(845)
Dividends paid by a subsidiary to non-controlling interest	(631)	(4,289)
	139,149	276,973
Net change in cash and cash equivalents	(923)	15,386
Cash and cash equivalents at beginning	3,078	(12,308)
Cash and cash equivalents at end	$ 2,155	$ 3,078
Cash flow per share from recurring operations		
Basic	$ 7.42	$ 6.29
Diluted	6.98	6.16

* Supplemental cash flow information (note 16).

Notes to Consolidated Financial Statements

Years ended August 31, 2001 and 2000
(amounts in tables are in thousands of dollars, except per share data)

1. Significant accounting policies

Consolidation principles

The consolidated financial statements include the accounts of the Company and its subsidiaries. Business acquisitions are accounted for under the purchase method and operating results are included in the consolidated financial statements as of the date of the acquisition of control. Other investments are recorded at cost, except for an investment of 20% in a general partnership, Canal Indigo, and an investment of 49% in Stornoway Productions Inc., by Cogeco Radio-Television Inc. which are accounted for under the equity method.

Business segments and percentage of interest in the main subsidiaries are as follows:

Segment	Principal subsidiary	Percentage of interest	Voting rights
Cable	Cogeco Cable Inc.	39.4%	86.7%
Media	Cogeco Radio-Television Inc.	100%	100.0%

Revenue recognition

Revenue generated from affiliated payments from television network, cable television, Internet access services and related services are recognized when earned. Advertising revenue is recognized when aired. Amounts received or invoiced that do not comply with these criteria are accounted as deferred and prepaid income.

Fixed assets

Fixed assets are recorded at cost. During construction of new assets, direct costs plus a portion of overhead costs are capitalized. Depreciation is provided principally on a straight-line method over the estimated useful lives on the following periods:

Buildings	20 to 40 years
Cable systems	15 years
Decoders, modems and customer's premise devices	7 years
Broadcasting and production equipment	5 to 20 years
Equipment under capital leases	5 years
Other equipment	5 years
Other	2 to 10 years

Broadcasting licences and customer base

The broadcasting licences represent the excess of the broadcasting station purchase price over the value assigned to the net tangible assets acquired. These licences are amortized on a straight-line basis over 40 years.

The customer base represents the value attributed to customer base upon acquisition of cable systems. The customer base is amortized using the sinking fund method at an interest rate of 5% over 40 years.

Annually, the Company reviews the net carrying amount of the broadcasting licences and customer base to determine if a permanent reduction in value has occurred. This revision is achieved by taking into consideration recent transactions concluded in the respective industry, as well as undiscounted expected future operating cash flow.

1. Significant accounting policies (continued)

Deferred charges

Deferred charges primarily include new services launch costs, subsidies given to customers purchasing customer's premise devices and financing costs. These costs are amortized using the straight-line method, over a period not exceeding five years.

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments purchased three months or less from maturity.

Derivative financial instruments

The Company's subsidiary, Cogeco Cable Inc., uses derivative financial instruments to manage risks from fluctuations in interest rates. These instruments include interest rate swap and cap agreements and are accounted for, under the accrual method, as hedges and accordingly, the book value is not adjusted to reflect the current market value. Net receipts or payments arising from derivative financial instrument are recognized in financial expense.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities and the revenues and expenses during the reporting year. Actual results could differ from these estimates.

2. Changes in accounting policies

Earnings per share

Effective September 1, 2000, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA), with respect to earnings per share. Under the revised standard, the treasury stock method is used instead of the imputed earnings approach for determining the dilutive effect of options issued or other similar instruments. Reconciliation of the numerators and denominators used in the reconciliation of basic and diluted income per share is presented in accordance with the recommendation.

The change in the method of calculation of earnings per share did not impact diluted and basic earnings per share for 2000.

Employee future benefits

As of September 1, 2000, the Company adopted the new recommendations of the CICA with respect to employee future benefits whereby the costs of retirement benefits was established based on new methods and assumptions and the cost of post employment benefits are recognized over the period in which the employees render services rather than on a pay-as-you-go basis. These changes were applied retroactively through an adjustment to opening retained earnings and the comparative figures have not been restated. As a result, as at September 1, 2000, the liability for employee future benefits was increased by $0.3 million and retained earnings were decreased by $0.3 million.

Income taxes

As of September 1, 2000, the Company adopted new CICA recommendations related to income taxes. Under this new accounting standard, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The change in accounting policy has been applied retroactively as at September 1, 2000 and resulted in an increase in future income taxes of $75.3 million, an increase in broadcasting licences and customer base of $70.4 million, a decrease in non controlling interest of $1.0 million and in a decrease in retained earnings of $3.9 million. Comparative figures have not been restated.

3. Acquisitions and disposals of businesses

During fiscal years 2001 and 2000, the Company's subsidiary, Cogeco Cable Inc., completed the following transactions:

a) In September 2000, the acquisition of all the outstanding shares of Câblo Distribution G inc., Télécâble Provincial inc. and Lindsay CATV System Limited.

b) In November 2000, the acquisition of all the outstanding shares of Cablevue (Quinte) Limited and related companies and of Médiacâble inc.

c) In January 2001, the acquisition of all the outstanding shares of Harrowby Communications Inc. and related companies.

d) In February 2001, the acquisition of all the outstanding shares of Muskoka Cable Systems Limited and related companies and of Huntsville Cable Services Limited and Décibel inc.

e) In September 1999, the exchange of cable systems with Regional Cablesystems Inc. and the acquisition of Cableworks Communications Inc. and Halton Cable Systems Inc.

The net assets acquired and the consideration for these transactions are as follows:

	2001	2000
Assets acquired		
Working capital deficiency	$ (4,592)	$ (3,560)
Fixed assets	39,127	24,222
Deferred Charges	266	—
Investments	—	441
Customer base	227,597	143,537
	262,398	164,640
Assumed liabilities		
Future income taxes	36,073	(3,180)
Long-term debt	177	—
Redeemable preferred shares	—	7,120
	36,250	3,940
Net assets acquired	226,148	160,700
Less: deposit on acquisition	—	(5,342)
Total consideration	226,148	155,358
Paid in Cogeco Cable Inc. shares	145,293	—
Paid in cash	$ 80,855	$ 155,358

4. Depreciation and amortization

	2001	2000
Fixed assets	$ 75,684	$ 53,019
Broadcasting licences and customer base	11,373	8,598
Deferred charges	7,949	5,823
	$ 95,006	$ 67,440

5. Unusual items

	2001	2000
Gain on dilution resulting from share issues by a subsidiary	$ 61,066	$
Write-off of certain fixed assets	(28,963)	—
Write-off of certain deferred charges	(798)	—
Write-off of certain investments	(970)	—
Gain on exchange and sale of cable systems	—	505
	$ 30,335	$ 505

In 2001, the dilution gain resulted from the issues of subordinate voting shares by Cogeco Cable Inc. The details of these issues are as follows: a first issue of 2,500,000 shares at a price of $40.00 per share for a total amount of $100,000,000 and issues made to acquire cable distribution networks of 3,785,248 shares at an average price of $38.38 per share for a total amount of $145,293,000. Subsequent to these issues, the ownership of the Company in Cogeco Cable Inc. decrease from 46.7% to 39.4%. In addition, an amount of $29,258,000 was written off for the IP telephony project as a result of the unforeseen level of effort required to deploy the solution. Finally, an amount of $1,473,000 was written off related to other assets.

In 2000, a gain of $505,000 was realized from the exchange and sale of certain cable assets.

6. Income taxes

	2001	2000
Current	$ 6,301	$ 1,441
Future	(24,709)	16,069
	$ (18,408)	$ 17,510

The following table provides the reconciliation between statutory federal and provincial income taxes and effective consolidated income tax rate:

	2001	2000
Combined income tax rate of 40.0% (40.9% in 2000)	$ (2,631)	$ 13,155
Income subject to lower tax rates	1,428	398
Reduction in income taxes as a result of changes in substantially enacted tax rates	(24,343)	—
Non-taxable portion of gain on sale of cable systems	—	(56)
Non-deductible amount arising from the reduction in the value of an investment	94	—
Income taxes arising from the non-deductible amortization of broadcasting licences and customer base	3,442	2,360
Large corporation tax	3,541	2,102
Other	61	(449)
Income taxes at effective income tax rate	$ (18,408)	$ 17,510

6. Income taxes (continued)

The income tax effect of temporary differences that give rise to a significant portion of future income tax assets and liabilities are as follows. The 2000 comparative figures in the following tables have not been restated to give effect to the asset and liability method.

	2001	2000
Future income tax assets:		
Non-capital loss carryforwards	$ 30,656	$ 26,744
Other	6,229	2,992
Total future income tax assets	36,885	29,736
Future income tax liabilities:		
Fixed assets	54,564	58,840
Deferred charges	8,116	12,222
Broadcasting licences and customer base	145,400	45,496
Investments	658	191
Total future income tax liabilities	208,738	116,749
Net future income tax liabilities	$171,853	$ 87,013

7. Segmented information

The Company's activities are divided into two business segments: Cable and Media. The Cable segment is comprised of all cable operations and the Media segment is comprised of radio and television operations.

The principal financial information per business segment is presented in the table below:

	Cable		Media		Head Office and elimination		Consolidated	
	2001	[illegible]	2001	[illegible]	2001	[illegible]	2001	[illegible]
Revenue	$ 438,768	$ 371,231	$40,046	$37,207	$ —	$ —	$ 478,814	$ 408,438
Operating costs	278,259	231,180	27,727	27,557	(1,518)	(1,144)	304,468	257,593
Operating income before depreciation and amortization	160,509	140,051	12,319	9,650	1,518	1,144	174,346	150,845
Depreciation and amortization	92,080	64,594	2,516	2,461	410	385	95,006	67,440
Operating income before unusual items	68,429	75,457	9,803	7,189	1,108	759	79,340	83,405
Unusual items (gain)	30,481	(505)	—	—	(60,816)	—	(30,335)	(505)
Financial expense	53,794	48,440	3,566	3,694	(2,135)	(478)	55,225	51,656
Income taxes	(21,664)	15,860	967	470	2,289	1,180	(18,408)	17,510
Net assets employed	$1,682,687	$1,298,823	$35,970	$34,352	$ 12,057	$17,259	$1,730,714	$1,350,434
Total assets	1,784,264	1,406,027	44,226	43,409	12,199	13,307	1,840,689	1,462,743
Acquisition of fixed assets	165,592	175,518	1,385	1,720	22	91	166,999	177,329

8. Fixed assets

	2001	2000
Cost		
Land	$ 3,935	$ 3,755
Buildings	33,499	28,305
Cable systems	805,361	657,617
Decoders, modems and customer's premise devices	82,157	48,819
Broadcasting and production equipment	59,335	88,741
Equipment under capital leases	6,774	7,835
Other equipment	79,744	110,913
Other	10,300	10,564
	1,081,105	956,549
Accumulated depreciation		
Buildings	6,432	6,068
Cable systems	258,888	231,496
Decoders, modems and customer's premise devices	17,158	13,584
Broadcasting and production equipment	32,418	38,679
Equipment under capital leases	3,738	2,920
Other equipment	25,387	31,275
Other	6,706	6,382
	350,727	330,404
	$ 730,378	$ 626,145

9. Broadcasting licences and customer base

	2001	2000
Cost		
Broadcasting licences	$ 37,277	$ 35,787
Customer base	1,040,644	735,640
	1,077,921	771,427
Accumulated amortization		
Broadcasting licences	7,578	6,616
Customer base	51,211	35,103
	58,789	41,719
	$1,019,132	$729,708

Effective September 1st, 2000, broadcasting licences and customer base net book value was increased by $70.4 million to reflect the impact of the change in accounting policies related to future income taxes (note 2).

10. Investments

	2001	2000
TQS Inc. at devalued cost – ownership of 12.9%	$ 6,580	$ 6,520
Other	3,452	3,093
	$ 10,032	$ 9,613

11. Bank indebtedness

As at August 31, 2001, the available operating line of credit to the Company amounts to $5,000,000 which was not utilized. This line of credit is revised periodically and does not require commitment fees.

As at August 31, 2001, the available operating line of credit to Cogeco Cable Inc. amounts to $25,000,000 which was not utilized. This line of credit is revised periodically, does not require commitment fees and is secured in the same manner as the term facility (note 12).

12. Long-term debt and term facilities

	[illegible]	[illegible]	2001	[illegible]
Parent company				
Term facility	2006	5.15% (1)	$ 15,000	$ 25,200
Other	—	—	2,549	1,179
Subsidiaries				
Term facility	2007	5.38 (1)	518,000	458,000
Senior Secured Debentures, Series 1	2009	6.75	150,000	150,000
Second Secured Debentures, Series A	2007	8.44	125,000	125,000
Obligations under capital leases	2005	5.75 – 13.45	4,485	6,687
Preferred shares (2)	2006	—	7,120	7,120
Other			967	1,253
			$823,121	$774,439

(1) Average interest rate on debt as of August 31, 2001, including stamping fees and excluding the impact of interest rate swap and cap agreements.

(2) 7,120,000 preferred shares issued, 5.5% cumulative dividend, redeemable and retractable to a maximum of $1,400,000 annually beginning in 2002.

12. Long-term debt and term facilities (continued)

a) The lenders of COGECO Inc. are unsecured creditors and ranked equally. Bank indebtedness is unsecured. The provisions of the loan agreement impose restrictions on the operations and activities of the Company. Generally, the most significant restrictions are related to permitted investments, as well as incurrence and maintenance of certain financial ratios, primarily linked to operating cash flow, financial expense and total indebtedness.

As at August 31, 2001, the Company has an unsecured syndicated bank facility governed by a term facility of $45,000,000. The facility is reduced quarterly beginning September 30, 2001 by 2.5% of the total amount of the facility for the first two years and 3.75% for the following years, until June 30, 2006, when the balance is due. The term facility requires commitment fees and interest rates are based, at the Company's option, on bankers' acceptance or bank prime rates.

b) As at August 31, 2001, the Company's subsidiary, Cogeco Cable Inc. has an agreement with a syndicate of financial institutions for a committed term facility of $620,000,000 and declining by increments of $35,000,000 annually starting January 31, 2002 with $35,000,000 and maturing January 31, 2007 with the residual. The term facility requires commitment fees and interest rates are based, at the Corporation's option, on bankers' acceptance or bank prime rates.

Cogeco Cable Inc.'s term facility and the operating line of credit described in note 11 are secured by a first fixed and floating charge on the Corporation's assets and certain of its subsidiaries except for permitted encumbrances, including purchase money obligations, existing funded obligations and charges granted by any subsidiary prior to the date when it becomes a subsidiary subject to a maximum amount in proportion to consolidated assets. The provisions under these facilities provide for restrictions on the operations and activities of Cogeco Cable Inc. Generally, the most significant restrictions are related to permitted investments as well as incurrence and maintenance of certain financial ratios primarily linked to the operating income before depreciation and amortization, dividends on common shares, reimbursement of long-term debt, financial expense, fixed charges and total indebtedness. Cogeco Cable's credit facilities are not guaranteed by COGECO Inc.

c) The Company's subsidiary, Cogeco Cable Inc. has entered into interest rate swap and cap agreements with financial institutions in order to manage interest rate fluctuation. According to the swap agreement, the Company's subsidiary Cogeco Cable Inc. pays interest at fixed rates and receives interest based on the three-month bankers' acceptance rate, which is reset quarterly. Under the interest rate cap agreement, interest rates are based on the three-month bankers' acceptance rate, reset quarterly, up to a maximum of 6%. As at August 31, 2001, the details of these agreements are as follows:

Principal	Interest Rate	Instalment	Maturity	Instrument
$100,000	5.41%	Quarterly	February 2002	Swap
100,000	6.00	Quarterly	February 2002	Cap

d) The Senior Secured Debentures, Series 1, are redeemable at Cogeco Cable Inc.'s option, in whole or in part, at the greater of par value or the Canada bond yield plus 0.3%. The debentures mature on June 4, 2009 and bare interest at 6.75%, payable semi-annually. These debentures are indirectly secured by a first fixed and floating charge and a security interest on all assets of Cogeco Cable Inc. and certain of its subsidiaries.

e) The Second Secured Debentures, Series A, are redeemable at Cogeco Cable Inc.'s option in whole or in part, at the greater of par value or Canada bond yield plus 0.5%. These debentures mature on July 31, 2007, bear interest at 8.44% payable semi-annually. These debentures are secured by second fixed charges on certain assets and second floating charges on all assets of Cogeco Cable Inc. and its subsidiaries.

f) Principal repayments due in long-term debt, excluding those under capital leases, are as follows:

2002	2003	2004	2005	2006
$1,400	$4,400	$106,400	$141,400	$191,400

g) Minimum payments due under capital leases total $4,561,000 of which $396,000 represent financial expense, and are as follows:

2002	2003	2004	2005
$3,274	$ 919	$ 353	$ 15

13. Capital stock

Authorized, an unlimited number of:

Preferred shares of first and second rank, issuable in series and non-voting, except when specified in the Articles of Incorporation of the Company or in the Law.

Multiple voting shares, 20 votes per share

Subordinate voting shares, 1 vote per share

Issued	2001	2000
1,849,900 multiple voting shares (1,907,900 in 2000)	$ 12	$ 12
14,385,113 subordinate voting shares (14,269,524 in 2000)	114,323	113,686
	$114,335	$113,698

During the year, subordinate voting share transactions were as follows:

	2001		2000	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning	14,269,524	$113,686	14,160,150	$112,860
Shares issued for cash under the Employee Stock Purchase Plan and the Stock Option Plan	57,589	637	128,374	978
Conversion of multiple voting shares to subordinate voting shares	58,000	—	—	—
Purchase of shares for cancellation	—	—	(19,000)	(152)
Balance at end	14,385,113	$114,323	14,269,524	$113,686

In 2000, pursuant to a normal course issuer bid, the Company purchased for cancellation 19,000 subordinate voting shares for an amount of $476,000 and the book value of purchased shares amounted to $152,000. The excess of the purchase price over the book value of purchased shares decreased retained earnings by an amount of $324,000.

Stock based plans

The Company established, for the benefit of its employees and those of its subsidiaries, an Employee Stock Purchase Plan and a Stock Option Plan for certain executives. Under these plans, no more than 10% of the outstanding subordinate voting shares are available and there are 1,545,700 subordinate voting shares reserved for purpose of the Stock Option Plan. The minimum purchase price for which options are granted is not less than the market value of such shares at the time the option is granted. Granted options vest 20% per year beginning the day such options are granted and are exercisable over 10 years. Under the Employee Stock Purchase Plan, a maximum of 40,000 shares is available annually. Under the Stock Option Plan, the following options were granted by the Company and are outstanding as at August 31:

	2001		2000	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding, beginning of year	578,629	$11.03	633,375	$ 9.14
Granted	44,643	37.50	71,213	21.40
Exercised	50,300	8.97	125,411	7.16
Forfeited	—	—	548	21.40
Outstanding, end of year	572,972	$13.28	578,629	$11.03
Exercisable, end of year	432,541	$10.57	402,326	$ 9.40

13. Capital stock (continued)

As at August 31, 2001, the range of exercise prices, the weighted-average exercise price and the weighted-average remaining contractual life of options are as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$ 4.275 to $ 8.375	145,700	4.49	$ 6.74	145,700	$ 6.74
$ 9.00 to $14.00	312,100	5.19	11.16	249,700	10.79
$21.40	70,529	8.17	21.40	28,212	21.40
$37.50	44,643	9.17	37.50	8,929	37.50

No compensation expense is recognized for the Stock Option Plan when stock options are granted to employees. Any consideration paid by employees on exercise is credited to share capital.

The Company and its subsidiary, Cogeco Cable Inc., have also adopted a performance unit plan for key employees. The value of a performance unit granted is equal to the closing price of the subordinate shares of the Company and its subsidiary on the Toronto Stock Exchange on the trading day preceding the date of grant of the unit. The units credited to the participant's account will become vested to the participant on the third anniversary of the date of grant of the said performance units. The units will only be redeemed at the termination of the participant's employment or in case of retirement or death. Each unit credited gives the right to a Dividend Equivalent equal to the amount of dividend per share paid on the subordinate shares of the Company and its subsidiary. The Dividend equivalent is converted into additional units. The units do not confer on the participant the right to acquire shares or other securities of the Company and its subsidiary under any circumstances and the participant shall not, by holding units, or otherwise be considered a shareholder of the Company and its subsidiary nor have any rights to become a shareholder as a result.

An amount of $301,000 ($1,142,000 in 2000) has been recorded as an expense in the consolidated statement of income related to these plans.

14. Earnings per share

The following table provides a reconciliation between basic and diluted earnings per share:

	2001	2000
Net income		
Basic	$ 69,357	$ 8,526
Excluding unusual items net of related income taxes and non-controlling interest	16,634	8,369
Weighted average number of multiple voting shares and subordinate voting shares outstanding	16,203,825	16,119,838
Effect of dilutive stock options	318,343	380,633
Weighted average number of diluted multiple voting shares and subordinate voting shares outstanding	16,522,168	16,500,471
Earnings per share		
Basic	$ 4.28	$ 0.53
Diluted	4.20	0.52
Earnings per share excluding unusual items		
Basic	1.03	0.52
Diluted	1.01	0.51

15. Financial instruments

Fair value

The Company uses the following methods and assumptions to evaluate fair market value of financial instruments:

Accounts receivable, accounts payable and accrued liabilities:

The carrying amount in the consolidated balance sheets approximates fair value because of the short-term nature of these instruments.

Investments:

The carrying amount approximates fair value of investments.

Long-term debt:

a) Financial expense under the terms of the term facilities is based upon banker's acceptance or bank prime rates. Therefore, carrying value is considered to represent fair market value for term facilities.

b) The carrying value of obligations under capital leases and other items of the long-term debt approximate the fair value of these financial instruments.

c) The fair value of the Senior Secured Debentures, Series 1, and the Second Secured Debentures, Series A, is based upon current trading values of similar financial instruments.

d) The fair value of the derivative financial instruments is based upon available information about the financial instruments and market conditions. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The estimated fair values of long-term debt instruments and derivative instruments are as follows:

	2001		2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	$823,121	$816,754	$ 774,439	$774,202
Derivative financial instruments-asset (liability) position: Interest rate swap and cap	351	(778)	1,192	1,029

Credit risks

The Company's credit risk arises from the possibility that counterparts to the interest rate swap and cap agreements may default on their obligations. The Company reduces risks by completing transactions with financial institutions that carry a credit rating of AA- and above. In addition, since the Company has a large and diversified clientele, the credit risk concentration from customers is minimal.

16. Statements of cash flow

a) Change in non-cash working capital items

	2001	2000
Accounts receivable	$(5,177)	$(5,358)
Prepaid expenses	6,778	(8,999)
Accounts payable and accrued liabilities	(6,424)	8,138
Deferred and prepaid income	5,011	306
Working capital deficiency related to business acquisitions	(4,592)	(3,560)
	$(4,404)	$(9,473)

16. Statements of cash flow (continued)

b) Fixed assets

During the year, fixed assets acquisitions amounted to $167,776,000 ($178,444,000 in 2000), $777,000 ($1,115,000 in 2000) of w acquired through leases. Disbursements amounting to $166,999,000 ($177,329,000 in 2000) were made for the purchase of fixed a

c) Other information

	2001	
Financial expense paid	$45,457	[illegible]
Income taxes paid	3,528	[illegible]

17. Employee future benefits

The Company and its subsidiaries offer to their employees contributory defined benefit pension plans, a defined contribution pension pla collective registered retirement savings plan. With respect to the last two plans, the Company and its subsidiaries' obligation is limite payment of the monthly employer's portion. The expenses related to these plans amounted to $1,250,000 ($1,223,000 in 2000).

The defined benefit pension plans provide pensions based on the number of years of service and the average salary during the employme of each participant. In addition, the Company and its subsidiaries offer certain executives a supplementary pension plan.

During the year, the Company and its subsidiaries adopted the new recommendations of the CICA for employee benefits plans. The follo disclosures for 2001 reflect the new recommendations of the CICA for employee benefit plans. As permitted under the new recommendation prior year financial statements have not been restated. Accordingly, the 2000 amounts and disclosures reflect the former recommendations of the CICA.

Change in accrued benefit obligations	
Accrued benefit obligation at beginning of year	$14,337
Service cost	478
Interest cost	1,020
Contributions by plan participants	172
Benefits paid	(829)
Accrued benefit obligation at end of year	$15,178
Change in plan assets	
Fair value of plan assets at beginning of year	$13,045
Actual return on plan assets	805
Employer contributions	411
Benefits paid	(829)
Fair value of plan assets at end of year	$13,432
Funded Status	
Funded status – deficit and net accrued benefit liability	$ 1,746

As at August 31, 2000, accrued pension benefits and assets available to provide for the defined benefits pension plans are $13,431,000 and $11,063,000 respectively.

The net benefit expense includes the following components:	2001
Current cost	$ 478
Interest cost	1,020
Expected return on plan assets	(805)
Net periodic benefit cost	$ 693

17. Employees future benefits (continued)

Pension expense for 2000 was $976,000.

The significant weighted-average assumptions used in measuring the Company's pension and other obligations as at August 31, 2001, were as follows:

	Pension benefits
Discount rate	7.00%
Expected rate of return on plan assets	7.25%
Rate of compensation increase	5.00%

18. Commitments and contingencies

a) As at August 31, 2001, the Company and its subsidiaries are committed under lease agreements to pay annual rent as follows:

2002	2003	2004	2005	2006	2007 and thereafter
$10,012	$9,165	$8,990	$8,895	$8,733	$10,309

b) The Company and its subsidiaries are involved in matters involving litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to litigation to be material to these financial statements.

19. Subsequent event

On September 18, 2001, the Company jointly announced the conclusion of an agreement to acquire 86% of the outstanding shares of TQS inc., subject to CRTC approval, with Bell Globemedia. The Company will own 60% of the joint venture. The respective contributions by the Company and its partner to the joint venture are as follows: the Company will transfer to the joint venture six television stations and its holding of approximately 13% in TQS inc. for a total consideration valued at approximately $105 million and Bell Globemedia will contribute approximately $74 million in cash to complete the transaction.

20. Comparative figures

Certain comparative figures have been reclassified in order to conform with the presentation adopted in 2001.

Selected Quarterly Information

(in thousands of dollars, except per share data)

Operating Results

Quarters ended	Nov. 30	Feb. 28	May 31	Aug. 31	2001 Total	Nov. 30	Feb. 29	May 31	Aug. 31	2000 Total
Revenue	$ 115,424	$ 117,724	$ 122,208	$ 118,458	$ 473,814	$ 98,766	$ 99,417	$ 105,018	$ 105,237	$ [illegible]
Operating income before depreciation and amortization	42,076	40,731	47,865	43,674	174,346	37,997	36,131	38,614	38,103	[illegible]
Operating income before unusual items	20,398	17,165	23,734	18,043	79,340	23,466	19,965	21,263	18,711	[illegible]
Income (loss) before income taxes	54,328	15,229	11,266	(26,373)	54,450	12,702	7,330	8,054	4,168	32,254
Net income excluding unusual items	3,041	548	2,861	10,184	16,634	3,579	1,492	2,364	934	[illegible]
Net income	50,318	12,267	4,852	1,920	69,357	3,736	1,492	2,364	934	8,526
Cash flow from recurring operations	28,584	27,808	31,941	27,010	115,343	27,993	25,398	24,347	23,592	101,330

Per Share Data[1]

	Nov. 30	Feb. 28	May 31	Aug. 31	2001 Total	Nov. 30	Feb. 29	May 31	Aug. 31	2000 Total
Net income excluding unusual items										
– basic	$0.19	$0.03	$0.18	$0.63	$1.03	$0.22	$0.09	$0.15	$0.06	$0.52
– diluted	0.18	0.03	0.17	0.62	1.01	0.22	0.09	0.14	0.06	0.51
Net income										
– basic	3.11	0.76	0.30	0.12	4.28	0.23	0.09	0.15	0.06	0.53
– diluted	3.04	0.74	0.29	0.12	4.20	0.23	0.09	0.14	0.06	0.52
Cash flow from recurring operations										
– basic	1.77	1.72	1.97	1.67	7.12	1.74	1.58	1.51	1.46	6.29
– diluted	1.73	1.68	1.93	1.63	6.98	1.71	1.54	1.48	1.43	6.16

(1) To determine the sector's normalized contribution, unusual items are not included in the above table.

Trading Statistics (in dollars, except share volumes)

The Toronto Stock Exchange

Quarters ended	Nov. 30	Feb. 28	May 31	Aug. 31	2001 Total
High	$ 45.75	$ 35.00	$ 28.00	$ 29.90	$
Low	26.00	24.00	21.90	22.95	
Close	27.50	26.00	27.25	22.95	
Volume (in shares)	1,598,703	1,844,196	2,746,056	1,496,964	7,685,919

The Toronto Stock Exchange

Quarters ended	Nov. 30	Feb. 29	May 31	Aug. 31	2000 Total
High	$ 23.50	$ 45.50	$ 48.00	$ 42.00	$
Low	19.50	23.50	30.05	32.00	
Close	23.50	44.25	32.75	37.95	
Volume (in shares)	305,978	3,722,016	5,302,964	2,954,162	12,285,120

Ten-Year Financial Highlights

Years ended August 31,
(in thousands of dollars except other statistics, per share data and ratios)

	2001	2000	1999
Operating Results			
Revenue	$ 478,814	$ 408,438	$ 358,875
Operating income before depreciation and amortization	174,346	150,845	148,009
Operating income before unusual items	79,340	83,405	95,814
Financial expense	55,225	51,656	47,312
Income before income taxes	54,450	32,254	94,592
Net income excluding unusual items	16,634	8,369	13,373
Net income	69,357	8,526	53,251
Cash flow from recurring operations	115,363	101,330	103,136
Investments			
Acquisition of fixed assets	167,776	178,444	138,542
Business acquisitions	226,148	155,358	19,554
Financial condition			
Fixed assets	730,378	626,145	476,992
Net assets employed (1)	1,730,714	1,350,432	1,058,858
Total assets	1,840,689	1,462,743	1,155,577
Total indebtedness	823,121	774,439	492,952
Shareholders' equity	305,822	243,451	237,808
Other statistics			
Number of shares outstanding at year end	16,235,013	16,177,424	16,068,050
Weighted average number of outstanding shares	16,203,825	16,119,838	15,998,470
Per share data			
Operating income before depreciation and amortization	10.76	9.36	9.25
Net income excluding unusual items	1.03	0.52	0.84
Net income	4.28	0.53	3.33
Cash flow from recurring operations	7.12	6.29	6.45
Shareholders' equity	18.84	15.05	14.80
Return ratios			
Operating margin before depreciation and amortization (2)	36.4%	36.9%	41.2%
Return on average net assets employed (3)	5.2	6.9	9.3
Return on average shareholders' equity (4)	25.3	3.5	25.1
Financial ratios			
Total indebtedness/Operating income before depreciation and amortization	4.7 (5)	5.1 (6)	3.3 (7)
Interest coverage (10)	3.2	2.9	3.1
Total indebtedness/Shareholders' equity	2.7	3.2	2.1

(1) Total assets less cash and cash equivalents, accounts payable and accrued liabilities and deferred revenue and prepaid income.

(2) Operating income before depreciation and amortization/Revenue.

(3) Operating income before unusual items/Average net assets employed.

(4) Net income applicable to multiple voting shares and subordinate voting shares/Average shareholders' equity.

(5) For the fiscal year ended August 31, 2001, the ratio includes financial results for periods less than twelve months of the acquisitions of Cablevue (Quinte) Limited and related companies, of Harrowby Communications and related companies, of Muskoka Cable Systems Limited and related companies, of Huntsville Cable Services Limited, of Médiacâble inc. and of Décibel inc for a seven-month period only.

(6) For the fiscal year ended August 31, 2000, the ratio includes financial results of the acquisition of Cableworks Communications Inc. for an eleven-month period only.

1998	1997	1996	1995	1994	1993	1992
$ 316,132	$ 274,516	$ 214,949	$ 206,897	$ 193,622	$ 190,585	$ 177,705
134,429	110,278	74,240	64,820	60,616	58,851	53,801
90,609	74,017	49,770	44,142	41,700	41,811	38,169
47,652	35,703	23,171	22,755	20,992	29,108	33,683
63,173	41,692	15,495	12,872	20,761	29,017	4,336
12,655	12,452	10,056	9,819	10,611	6,009	2,015
20,208	18,430	8	5,210	10,712	22,323	1,922
89,162	70,620	42,466	41,598	36,068	27,634	20,070
83,425	61,546	36,287	42,354	29,609	13,758	12,062
66,061	368,343	14,376	—	—	—	940
387,513	324,146	170,026	149,073	122,135	105,326	103,299
998,097	864,023	462,676	465,430	438,667	435,001	438,640
1,072,647	962,513	511,772	507,434	476,912	465,640	467,576
635,884	594,031	231,354	229,134	208,906	217,481	278,981
187,154	170,323	170,809	173,413	170,145	152,072	144,009
15,907,203	15,863,997	17,718,996	17,788,495	17,767,036	14,329,477	9,083,311
15,900,932	16,890,465	17,794,707	17,784,111	16,889,710	11,710,172	9,094,227
8.45	6.53	4.17	3.64	3.59	5.03	5.92
0.80	0.74	0.57	0.55	0.60	0.36	0.05
1.27	1.09	—	0.29	0.61	1.76	0.04
5.61	4.18	2.39	2.34	2.14	2.36	2.21
11.77	10.74	9.64	9.75	9.58	9.20	6.24
42.5%	40.2%	34.5%	31.3%	31.3%	30.9%	30.3%
9.7	11.2	10.8	9.8	9.5	9.6	8.6
11.3	10.8	—	3.0	6.8	21.8	0.3
4.7 (8)	5.4 (9)	3.1	3.5	3.4	3.7	5.2
2.8	3.1	3.2	2.8	2.9	2.0	1.6
3.4	3.5	1.3	1.3	1.2	1.4	1.9

(7) For the fiscal year ended August 31, 1999, the ratio includes financial results of Weyburn and Estevan cable systems sold on December 17, 1998, for approximately a three-month period only, and financial results of the Chilliwack cable system sold on May 31, 1999 for a nine-month period only.

(8) For the fiscal year ended August 31, 1998, the ratio includes financial results of the acquisition of Câblodistribution Le Rocher inc. for a nine-month period only and financial results of cable system exchange with Shaw Communications Inc. for a two-month period only.

(9) For the fiscal year ended August 31, 1997, the ratio includes financial results of the cable systems acquired from Rogers Cablesystems Limited and certain of its affiliates for a nine-month and six-day period only. Furthermore, this ratio does not consider that cash and cash equivalents were used subsequently to reduce total indebtedness.

(10) Operating income before depreciation and amortization/Financial expense.

Cable Statistics

Years ended August 31

	2001	2000	1999	1998	1997
Number of Customers					
Homes passed	1,358,880	1,197,808	1,103,361	1,110,810	1,018,106
Homes connected (1)	881,731	806,431	765,806	777,155	740,702
Revenue-Generating Units (2)	986,704	877,147	804,941	787,573	744,462
Basic Service Customers	878,766	806,431	765,806	777,155	740,702
Percent Penetration	64.7%	67.3%	69.4%	70.0%	72.8%
Discretionary Service Customers					
Tier 1	684,026	650,142	618,201	644,059	622,042
Penetration as Percentage of Basic	79.8%	82.9%	83.4%	83.7%	84.7%
Tier 2	432,205	401,232	353,589	363,306	335,430
Penetration as Percentage of Basic	56.2% (3)	68.6% (3)	68.5% (4)	67.0% (4)	65.1% (4)
Tier 3	366,760	347,229	297,119	210,120	—
Penetration as Percentage of Basic	56.1% (3)	59.4% (3)	57.6% (4)	38.7% (4)	—
Pay TV Service Customers	117,205	88,320	74,196	81,894	73,185
Penetration as Percentage of Basic	13.3%	11.0%	9.7%	10.5%	9.9%
High-Speed Internet Service Customers	107,938	70,716	39,135	10,418	3,760
Penetration as Percentage of Basic	15.7% (5)	12.2% (5)	—	—	—
Digital Terminals	105,292	79,063	—	—	—
Penetration as Percentage of Basic	13.3% (5)	11.1% (5)	—	—	—
Bundled Service Customers (6)	187,926	51,203	—	—	—

(1) Internet service customers who do not subscribe to other cable services and basic service customers.

(2) Basic service customers and Internet service customers.

(3) Calculated on the basis of basic service customers, in Ontario and digital service customers, in Quebec.

(4) Only available on systems located in provinces other than Quebec.

(5) Calculated on the basis of the systems where the service is offered.

(6) Bundles including basic service, discretionary tiers, multiple outlets with the option to include pay television, the advantages of digital service and high-speed Internet service.

Breakdown by province	Homes Passed	Customers	% of the Penetration (1)	Customers	% of the Penetration (2)	Distribution by Region
Ontario						
Southern Regions	635,119	429,523	67.6%	359,488	83.7%	48.9%
Other Regions	295,205	193,089	65.4	161.288	83.5	22.0
	930,324	622,612	66.9	520,776	83.6	70.9
Quebec	428,556	256,154	59.8	181,828	71.0	29.1
Total in Canada	1,358,880	878,766	64.7%	702,604	80.0%	100.0%

(1) As percentage of Homes Passed.

(2) As percentage of Basic Service Customers.

Investor Information

As at August 31,
(in thousands of dollars, except share information)

Consolidated Capitalization	2001	2000	1999	1998	1997
Total indebtedness	$ 823,121	$ 774,439	$ 492,952	$ 635,884	$ 594,031
Shareholders' equity	305,822	243,451	237,808	187,154	170,323
Total	$ 1,128,943	$ 1,017,890	$ 730,760	$ 823,038	$ 764,354

As at August 31, 2001

Credit Ratings	DBRS	S&P
Cogeco Cable Inc.		
Senior Secured Debentures, Series 1	BBB (Low)	BBB
Second Secured Debenteures, Series A	BB (High)	BBB-

As at August 31, 2001

Share Information

Number of multiple voting shares (20 votes per share) outstanding	1,849,900
Number of subordinate voting shares (1 vote per share) outstanding	14,385,113
Stock exchange listing	The Toronto Stock Exchange
Trading symbol	CGO

Registrar/Transfer Agent

General Trust of Canada
1100 University Street, 9th floor
Montreal, Quebec H3B 2G7
Tel.: (514) 871-7171
Fax: (514) 871-7442

121 King Street West, Suite 1600
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Fax: (514) 871-7442

Dividend Policy

The Company declared an annual dividend of $0.21 per share, or $0.0525 quarterly, during fiscal year 2000–2001 ($0.21 per share, or $0.0525 quarterly in 1999-2000) to the holders of subordinate voting shares and multiple voting shares.

Years ended August 31,
(in dollars, except volume of shares)

Trading Statistics	The Toronto Stock Exchange			
	High	Low	Close	Volume (shares)
2001	**$ 45.75**	**$ 21.90**	**$ 22.95**	**7,685,919**
2000	48.00	19.50	37.95	12,285,120
1999	31.05	11.50	22.25	2,495,317
1998	18.10	9.25	13.65	2,696,676
1997	10.80	6.00	9.60	2,373,819
1996	8.50	5.50	6.70	3,382,585
1995	9.38	5.25	6.63	3,316,267
1994	13.50	9.38	9.38	2,286,202
1993	9.50	5.38	9.38	1,523,793
1992	5.75	3.40	5.75	161,033

Subsidiaries and Operating Units

Cable

Cogeco Cable Inc.
1 Place Ville Marie
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Montreal, Quebec
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Tel.: (514) 874-2600
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Tel.: (514) 874-2600
Fax: (514) 875-0102

Jacques Bégin
Vice-President,
Special Projects

Denis Bélanger
Vice-President,
Engineering and Development

Louise St-Pierre
Vice-President and Chief
Information Officer

Hélène Laurin
Vice-President,
Administration and Control

Cable Ontario
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Fax: (905) 332-8426

Gary Switzer
Vice-President
and General Manager

Chris MacFarlane
Vice-President,
Engineering, IP and
Transport Services

Gerry Marshall
Vice-President,
Technical Operations

Tom McCutcheon
Vice-President,
Marketing and
Communications

Andre Schermel
Vice-President,
Engineering, HFC and
Fiber Infrastructure

David Vanden Bosch
Vice-President,
Customer Care

Cable Quebec
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Suite 200
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Tel.: (819) 372-9292
Fax: (819) 372-3318

Jules Grenier
Vice-President
and General Manager

Hélène Dubuc
Vice-President,
Communications and Programming

Radio and Television

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2830 Saint-Martin Boulevard East
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Laval, Quebec H7E 5A1
Tel.: (450) 664-4646
Fax: (450) 664-1777
Toll Free Line: 1 888 878-4646

Michel J. Carter
Vice-President
and General Manager

Monique Lacharité
Vice-President,
Administration and Control

Television

CKSH-TV/CFKS-TV
Sherbrooke, Quebec

Michel Cloutier
General Manager

CKTM-TV/CFKM-TV
Trois-Rivières, Quebec

Michel Cloutier
General Manager

CKTV-TV/CFRS-TV
Jonquière, Quebec

Guy Simard
General Manager

Radio

105.7 Rythme FM
(CFGL-FM)
Laval/Montreal, Quebec

Jacques Boiteau
General Manager

CJMF-FM
Quebec, Quebec

Geoffrey O. Brown
General Manager

Production

Les Productions Carrefour Inc.
Laval, Quebec

Michel J. Carter
President

Board of Directors and Management

Board of Directors

■▲ **Maurice Myrand,** F.C.A., A.I.F.
Chairman of the Board
Director

■▲ **Henri Audet,** C.M., D.Sc., Eng.
Chairman Emeritus
Director

■ **Louis Audet,** M.B.A., Eng.
President and Chief Executive Officer
Director

● **Robert Bonneau,** Eng.
Corporate Director
Director

● **Jacqueline L. Boutet,** C.M.
President,
Jacqueline L. Boutet inc.
Director

● **André Brousseau**
Corporate Director
Director

▲ **Daniel Damov**
Corporate Director
Director

● **Henri P. Labelle,** B. Arch., M.B.A.
Architect and Certified Arbitrator
Director

David McAusland, B.C.L., LL.B.
Senior Vice-President,
Mergers & Acquisitions
& Chief Legal Officer,
Alcan Inc.
Director

▲ **Jan E. Peeters,** Eng., C.M.A.
President,
Olameter Inc.
Director

■ Member of the Executive Commitee
● Member of the Audit Commitee
▲ Member of the Human Resources Commitee

Management

Maurice Myrand
Chairman of the Board

Louis Audet
President and Chief Executive Officer

Pierre Gagné
Vice-President, Finance
and Chief Financial Officer

Yves Mayrand
Vice-President,
Legal Affairs and Secretary

Christian Jolivet
Director,
Legal Affairs and Assistant Secretary

Andrée Pinard
Treasurer